



**SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE**  
**STATEMENT OF ESTIMATED FISCAL IMPACT**  
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*This fiscal impact statement is produced in compliance with the South Carolina Code of Laws and House and Senate rules. The focus of the analysis is on governmental expenditure and revenue impacts and may not provide a comprehensive summary of the legislation.*

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**Bill Number:** S. 0969    Signed by Governor on July 2, 2024  
**Author:** Alexander  
**Subject:** Income Tax Deductions  
**Requestor:** Senate  
**RFA Analyst(s):** Jolliff  
**Impact Date:** July 25, 2024

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### **Fiscal Impact Summary**

This bill makes the following changes to income and local sales tax provisions:

- Increases the individual income tax subsistence allowance deduction for law enforcement officers and full-time firefighters and emergency medical service personnel from \$8 to \$16 per day beginning in tax year 2024.
- Increases the maximum deduction for volunteer firefighters, rescue squad members, hazardous materials response team members, reserve police officers, Department of Natural Resources (DNR) deputy enforcement officers, members of the State Guard, and volunteer state constables who meet the volunteer activity requirements as specified in the statute from \$3,000 to \$6,000. The allowable deduction per taxpayer must be certified by Revenue and Fiscal Affairs (RFA) annually such that the total revenue loss does not exceed an aggregate limit of \$3,100,000 per year in total, which remains unchanged.
- Revises the income tax credit for each clinical rotation for which a physician, advanced practice registered nurse (APRN), or physician assistant (PA) serves as the preceptor by making changes to the current requirements for qualifications and the number of rotations that must be served. The credit must be taken 50 percent in the year earned and 50 percent in the following year, and unused credits may be carried forward for 10 years. The credit is currently set to expire after 2025, and the bill extends the credit through 2029.
- Amends the local option transportation tax to permit a local government to opt to exempt sales of unprepared food items from the tax for those imposed pursuant to a referendum held on or after November 5, 2024.

This bill is not expected to impact expenditures for the Department of Revenue (DOR). We anticipate that the necessary updates to tax forms and guidance can be completed in the revisions that are completed annually. Further, the bill will not impact expenditures for RFA as the agency currently provides the certification of the volunteer credit annually.

This bill is expected to reduce General Fund individual income tax revenue beginning in FY 2024-25 by \$1,547,000 for the increase in the subsistence allowance. The increase in the volunteer deduction will reduce General Fund individual income tax revenue by \$1,055,000. For reference, the total volunteer deduction impact is estimated to be \$2,157,000, which is less than

the \$3,100,000 maximum, and taxpayers will be allowed to claim the full increased deduction of \$6,000 in tax year 2024.

Further, changes to the income tax credit for preceptor clinical rotations will decrease General Fund individual income tax revenue by an additional \$279,000 in FY 2025-26, \$433,000 in FY 2026-27, and \$747,000 in FY 2027-28 and thereafter including any growth. Under current law, no new credits would be earned after 2025, and only carryforward credits would be claimed after FY 2025-26. The changes extend the impact and allow new credits to be earned through 2029 (FY 2029-30), after which time only carryforward credits would remain in 2030 (FY 2030-31). The impact will decrease beginning in FY 2030-31 as no new tax credits will be earned after 2029.

The table below summarizes the reduction in General Fund individual income tax revenue from the provisions explained above through FY 2027-28.

	<b>FY 2024-25</b>	<b>FY 2025-26</b>	<b>FY 2026-27</b>	<b>FY 2027-28</b>
Subsistence Allowance *	(\$1,547,000)	(\$1,547,000)	(\$1,547,000)	(\$1,547,000)
Volunteer Deduction*	(\$1,055,000)	(\$1,055,000)	(\$1,055,000)	(\$1,055,000)
Clinical Preceptor Credit	\$0	(\$279,000)	(\$433,000)	(\$747,000)
<b>Total</b>	<b>(\$2,602,000)</b>	<b>(\$2,881,000)</b>	<b>(\$3,035,000)</b>	<b>(\$3,349,000)</b>

*\*These estimates may be impacted by growth in the number of returns in later years.*

The bill may impact local transportation sales tax collections if a county opts to exempt sales of unprepared foods from a transportation tax imposed pursuant to a referendum held on or after November 5, 2024, which is the next general election date. Based on an analysis of existing local sales taxes in FY 2022-23, we estimate that exempting unprepared foods would reduce local transportation sales tax revenue by approximately 14 percent on average.

## **Explanation of Fiscal Impact**

### **Signed by Governor on July 2, 2024**

#### **State Expenditure**

This bill increases the individual income tax subsistence allowance deduction for law enforcement officers and full-time firefighters and emergency medical service personnel from \$8 to \$16 beginning in tax year 2024. The bill also increases the maximum deduction for volunteer firefighters, rescue squad members, hazardous materials response team members, reserve police officers, DNR deputy enforcement officers, members of the State Guard, and volunteer state constables who meet the volunteer activity requirements as specified in the statute from up to \$3,000 to \$6,000. The allowable deduction per taxpayer must be certified by RFA annually such that the total revenue loss does not exceed an aggregate limit of \$3,100,000 per year in total, which remains unchanged. Lastly, the bill revises the current clinical preceptor credit administered by DOR. Currently, DOR is required to report by March thirty-first of each year to the Senate Finance Committee, the House Ways and Means Committee, and the Governor the

number of taxpayers claiming the deduction, the total amount of deductions allowed, and the number of hours the recipient taxpayers served as preceptors by type of preceptor.

This bill is not expected to impact expenditures for DOR. We anticipate that the necessary updates to tax forms and guidance can be completed in the revisions that are completed annually. Further, the bill will not impact expenditures for RFA as the agency currently provides the certification of the volunteer credit annually.

## **State Revenue**

### Subsistence Allowance

Section 1 of the bill increases the individual income tax subsistence allowance for federal, state, and local law enforcement officers and full-time firefighters and emergency medical service personnel from \$8 to \$16 per day. These taxpayers receive a subsistence allowance for each regular workday in a taxable year. As of tax year 2021, approximately 22,118 tax returns claimed a total of \$31,664,000 in deductions. The deduction reduced income taxes by approximately \$1,963,000 in tax year 2021, which equates to approximately \$89 per return. Further, based on a recalculation of these tax returns, doubling the subsistence allowance would reduce income taxes by slightly less than the current tax reduction, approximately 98.2 percent of the current amount, because some of these taxpayers do not have sufficient tax liabilities to claim the full increased deduction.

Based on historical growth trends and the applicable marginal tax rates for 2024, we estimate that this deduction will reduce individual income taxes by approximately \$1,575,000 in FY 2024-25. Therefore, increasing the subsistence allowance from \$8 to \$16 per day will reduce General Fund individual income tax revenue by approximately \$1,547,000 beginning in FY 2024-25 after accounting for the returns that will not be able to use the full increased deduction.

### Volunteer Deduction

Section 2 of the bill increases the amount volunteers are allowed to deduct for individual income tax purposes from up to \$3,000 to \$6,000 beginning in tax year 2024. Currently, specified volunteers are allowed a maximum \$3,000 individual income tax deduction or a deduction amount certified by RFA that restricts the income tax revenue loss to a maximum of \$3,100,000 per year. Taxpayers eligible for this deduction include volunteer firefighters, rescue squad members, hazardous materials response team members, reserve police officers, DNR deputy enforcement officers, members of the State Guard, and volunteer state constables who meet the volunteer activity requirements as specified in the statute. RFA has certified the maximum deduction at \$3,000 for tax year 2024.

In tax year 2021, approximately 5,923 returns claimed deductions totaling \$18,661,414. This deduction reduced income taxes by approximately \$1,157,000, or \$195 per return. Based on a recalculation of these tax returns, doubling the maximum deduction to \$6,000 would reduce income taxes by slightly less than the current tax reduction, approximately 95.7 percent of the current amount, because some of these taxpayers do not have sufficient tax liabilities to claim the full increase in the deduction.

Based on historical growth trends and the applicable marginal tax rates for 2024, the total income tax reduction from the current deduction is expected to be \$1,102,000 in tax year 2024. Therefore, after accounting for the returns that will not be able to use the full increased deduction, we estimate that increasing the volunteer deduction amount to \$6,000 will reduce General Fund individual income taxes by approximately \$1,055,000 beginning in FY 2024-25. Based on these estimates, the total revenue reduction will be approximately \$2,157,000, which is less than the \$3,100,000 maximum, and taxpayers will be allowed to claim the full increased deduction of \$6,000 in tax year 2024.

### Clinical Preceptor Credit

Section 3 of the bill changes the current individual income tax credit for each clinical rotation for which a physician, APRN, or PA serves as the preceptor. The preceptor must provide a minimum of two required clinical rotations within a calendar year. The preceptor may claim a tax credit for up to four rotations and a tax deduction for up to six additional rotations, for a total of ten rotations. Each clinical rotation must include a minimum of one hundred sixty hours of instruction, and the preceptor must not otherwise be compensated for providing the instruction. The tax credit currently applies to tax years 2020 through 2025 and is phased-in in equal and cumulative installments over five years.

A taxpayer may earn up to four credits for qualifying rotations. The total amount of credits claimed in a year may not exceed 50 percent of the taxpayer's liability after all other credits. Additionally, 50 percent of the credit may be claimed in the year earned, and the remaining amount may be claimed in the subsequent tax year. Any unused credit may be carried forward for a maximum of ten tax years.

After earning the maximum credits for four rotations, the taxpayer may claim a deduction for each additional rotation, up to a maximum of six additional rotations, in an amount equal to the credit amount that the rotation would have earned if the taxpayer had not already claimed the maximum amount of credits.

For physicians, the amount of the credit varies currently depending upon the percentage of patients seen by the physician's practice who are Medicaid insured, Medicare insured, or self-pay. The credit is disallowed if less than 30 percent of the practice's patients are Medicaid, Medicare, or self-pay. The credit is \$750 if the physician's practice consists of at least 30 percent Medicaid, Medicare, or self-pay and increases to \$1,000 if the practice consists of at least 50 percent Medicaid, Medicare, or self-pay patients.

For APRNs and PAs currently, the credit is disallowed if less than 30 percent of the practice's patients are Medicaid, Medicare, or self-pay. The credit is \$500 if the practice consists of at least 30 percent Medicaid, Medicare, or self-pay and increases to \$750 if the practice consists of at least 50 percent Medicaid, Medicare, or self-pay patients.

The table below provides the history of the current tax credits and deductions claimed as reported by DOR and an estimate of the revenue impact based on estimates of the applicable tax rates for these taxpayers.

## Current Impact of Preceptor Tax Credit (and Deduction)

Pursuant to Section 12-6-3800

	Returns	Rotations	Credit Used	Deduction Used*	Estimated Annual Revenue Impact**
FY 2020-21	100	593	\$29,550	\$15,275	(\$31,000)
FY 2021-22	124	802	\$78,405	\$40,150	(\$81,000)
FY 2022-23	151	752	\$156,802	\$77,225	(\$162,000)

\*Deduction amount is before the applicable marginal tax rate. The estimated total impact accounts for the marginal tax rates for taxpayers claiming this credit adjusted for tax rate changes by year.

\*\*Total impact is the amount used in the year. Carryforwards would impact the following year. Amounts are rounded.

The bill changes the credit such that the amount is \$1,000 per rotation up to a maximum of \$4,000 for physicians, APRNs, and PAs who are a Medicaid participating provider and have a minimum of at least one hundred Medicaid and Medicare patients combined or if the practice is a free clinic. The bill also adds specialty care including dermatology, hematology, neurology, and oncology to the clinical settings that qualify for the credit.

We anticipate that this may increase the number of qualifying preceptors. Under the current requirements, the preceptor's practice must be at least 30 percent Medicaid, Medicare, or self-pay in order to qualify for the credit. With an average number of patients per physician of 2,500, this would equate to approximately 750 Medicaid, Medicare, or self-pay patients.<sup>1</sup> We estimate that approximately 72 percent of SC practices meet these current requirements.<sup>2</sup> The bill specifies that the provider must be a Medicaid participating provider and have at least 100 Medicaid and Medicare patients combined or be a free clinic. We estimate that approximately 88.8 percent of SC practices meet these revised requirements.<sup>3</sup> Based on these percentages, the changes would increase qualifying preceptors by approximately 23.3 percent.

In order to estimate the impact, RFA contacted the Coalition for Increasing Access to Primary Care (CIAPC), which includes members from Clemson University, Francis Marion University, Medical University of South Carolina (MUSC), and University of South Carolina (USC), and received data from these institutions. RFA also received data from the S.C. Independent College and Universities. Using data provided previously and updates as available, we have developed the estimates below of the potential impact of extending this credit by fiscal year. These estimates factor in changes to the eligibility requirements. Under current law, no new credits

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<sup>1</sup> How many patients does a doctor have a day? ElationHealth.com, July 25, 2022, <https://www.elationhealth.com/resources/blogs/how-many-patients-does-a-doctor-have-a-day> Retrieved March 22, 2024

<sup>2</sup> Primary Care Physicians Accepting Medicare: A Snapshot, Kaiser Family Foundation, October 30, 2015 <https://www.kff.org/medicare/issue-brief/primary-care-physicians-accepting-medicare-a-snapshot/> Retrieved March 22, 2024; Figures adjusted to account for South Carolina population differences to US; See also Fiscal Impact Statements for S. 314 of 2019 [https://www.scstatehouse.gov/fiscalimpact.php?type=BILL&session=123&bill\\_number=314](https://www.scstatehouse.gov/fiscalimpact.php?type=BILL&session=123&bill_number=314)

<sup>3</sup>Percentage of physicians who accept new Medicaid patients in SC; State Health Access Data Assistance Center; <https://www.shadac.org/state/sc> Retrieved March 21, 2024

would be earned after 2025. The estimates below show the current expected carryforwards for tax credits earned in 2025 (FY 2025-26) that would be claimed in 2026 (FY 2026-27) based on the requirements that 50 percent is claimed in the year earned and 50 percent in the following year and using the current tax return information to estimate new credits and carryforwards.

**Estimated Impact of Preceptor Tax Credit (and Deduction) Changes**

<b>FY 2025-26</b>	<b>Returns</b>	<b>Credits</b>	<b>Deductions*</b>	<b>Estimated Revenue Impact**</b>
Current	234	\$303,739	\$150,000	(\$313,000)
Proposed	289	\$577,200	\$249,625	(\$592,000)
<b>Change</b>	<b>55</b>	<b>\$273,461</b>	<b>\$99,625</b>	<b>(\$279,000)</b>
<b>FY 2026-27</b>				
Current	234	\$227,804	\$112,500	(\$235,000)
Proposed	326	\$651,200	\$281,628	(\$668,000)
<b>Change</b>	<b>92</b>	<b>\$423,396</b>	<b>\$169,128</b>	<b>(\$433,000)</b>
<b>FY 2027-28</b>				
Current	0	\$0	\$0	\$0
Proposed	364	\$727,667	\$314,698	(\$747,000)
<b>Change</b>	<b>364</b>	<b>\$727,667</b>	<b>\$314,698</b>	<b>(\$747,000)</b>

\*Deduction amount is before the applicable marginal tax rate. The estimated impact accounts for the marginal tax rates for taxpayers claiming this credit adjusted for tax rate changes by year.

\*\*Estimated impact is the amount used in the year. Carryforwards would impact the following year. Amounts are rounded.

This section would decrease General Fund individual income tax revenue by an additional \$279,000 in FY 2025-26, \$433,000 in FY 2026-27, and \$747,000 in FY 2027-28 and thereafter including any growth. Under the bill, new credits would be earned through 2029 (FY 2029-30), after which time only carryforward credits would remain in 2030 (FY 2030-31). The impact will decrease beginning in FY 2030-31 as no new tax credits will be earned after 2029.

State Revenue Summary

The table below summarizes the reduction in General Fund individual income tax revenue from the provisions explained above through FY 2027-28.

**Summary of General Fund Revenue Impact**

	<b>FY 2024-25</b>	<b>FY 2025-26</b>	<b>FY 2026-27</b>	<b>FY 2027-28</b>
Subsistence Allowance *	(\$1,547,000)	(\$1,547,000)	(\$1,547,000)	(\$1,547,000)
Volunteer Deduction*	(\$1,055,000)	(\$1,055,000)	(\$1,055,000)	(\$1,055,000)
Clinical Preceptor Credit	\$0	(\$279,000)	(\$433,000)	(\$747,000)
<b>Total</b>	<b>(\$2,602,000)</b>	<b>(\$2,881,000)</b>	<b>(\$3,035,000)</b>	<b>(\$3,349,000)</b>

\*These estimates may be impacted by growth in the number of returns in later years.

## Local Expenditure

N/A

## Local Revenue

The bill allows a county to opt to exempt sales of unprepared food items eligible for purchase with United State Department of Agriculture food coupons from a local transportation sales tax imposed pursuant to a referendum held on or after November 5, 2024, which is the next general election date. Based on an analysis of existing local sales taxes in FY 2022-23, we estimate that exempting unprepared foods would reduce local transportation sales tax revenue by approximately 14 percent on average. Therefore, if a county opts to exempt unprepared foods from a local transportation sales tax, it potentially will reduce the local transportation sales tax collected by approximately 14 percent.



Frank A. Rainwater, Executive Director